

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: AR&T Committee Analyst: John Pavalasky Bill Number: AB 1115
Related Bills: See Analysis Dated 3/26/2001 Telephone: 845-4335 Amended Date: March 28, 2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Nonresident Taxation

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 23, 2001.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- ☒ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2001 STILL APPLIES.
- ☐ OTHER - See comments below.

SUMMARY

This Franchise Tax Board-sponsored bill would make a comprehensive change in the manner that nonresidents and part-year residents are taxed. This bill would specify, for the first time, clear, definitive rules that would be applied consistently to all taxpayers for calculating loss carryovers, deferred deductions, and deferred income. It would also allow the alimony deduction and itemized deductions to nonresidents, thus making California law consistent with case law from the U.S. Supreme Court and resolve a potential federal constitutional issue.

SUMMARY OF AMENDMENTS

The March 28, 2001, amendments corrected the wording in several sections contained in the bill as introduced February 23, 2001, and provided specific operative dates for the sections being amended, added, and repealed.

PURPOSE OF THE BILL

By providing detailed rules in the statute that specify clear and definitive rules for complex calculations, it will enable taxpayers and tax professionals to understand the law and thus result in improved compliance. By allowing the alimony deduction to nonresidents, it would resolve a potential federal constitutional issue.

Board Position:

<input checked="" type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department Director

Date

Brian Putler

04/02/01

EFFECTIVE/OPERATIVE DATE

This bill, as a tax levy, would be effective immediately and would be operative for taxable years beginning on or after January 1, 2001.

POSITION

Support.

At its December 18, 2000, meeting, the Franchise Tax Board voted 2-0 to sponsor the language introduced in this legislation.

A new revenue estimate is provided. The remainder of the previous analysis dated March 26, 2001, still applies.

TECHNICAL CONSIDERATIONS

A technical amendment is needed in SEC. 25. of the bill, as amended March 28, 2001. The reference to Section "17032" should be changed to read "17302." The section should also be amended to identify clearly years that are considered "open years."

ECONOMIC IMPACT

Revenue Estimate

With respect to one issue, the nonresident deduction for alimony payments, revenue losses have previously been estimated as follows (in millions of dollars):

<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
-\$5	-\$2	-\$2

The estimate for 2001-02 includes the retroactive application of deductions for open years.

Relevant tax information pertaining to all other nonresident tax issues is not available. In some cases, taxpayers would be advantaged under these changes and in other cases disadvantaged.

On balance, total revenue effects of this bill are unknown.

LEGISLATIVE STAFF CONTACT

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